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DISENTANGLEMENT

Final Report of the Expert Panel on

Transit



OCTOBER 1992

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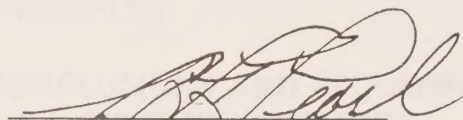
TO:

MEMBERS OF THE PROVINCIAL-MUNICIPAL DISENTANGLEMENT
STEERING COMMITTEE

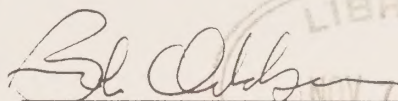
November 13, 1992

In April 1992, the Disentanglement Steering Committee established a Municipal Transit Expert Panel to provide recommendations on the Provincial Municipal relationship with respect to municipal transit.

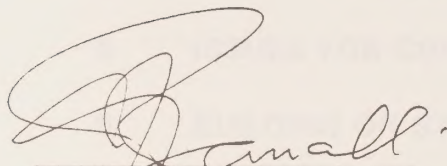
We, the members of the Municipal Transit Expert Panel are pleased to submit herewith our report and recommendations with respect to the provincial - municipal transit relationship.



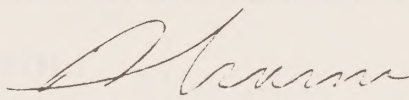
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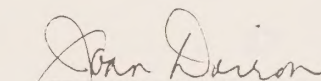
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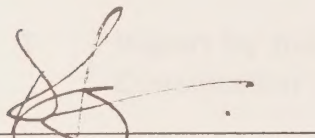
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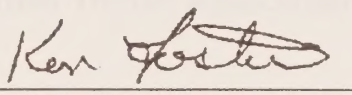
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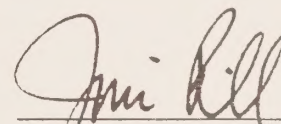
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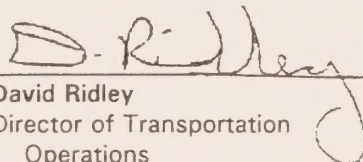
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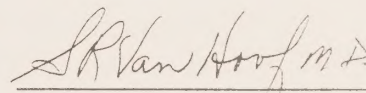
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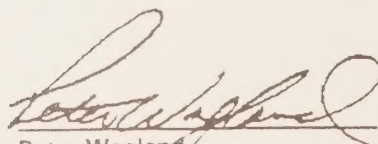
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EXECUTIVE SUMMARY

Introduction

This report presents the views and conclusions of an Expert Panel which considered the roles and responsibilities – current and future – of the Provincial Government and Municipal Governments in the planning, management and operation of transit services.

The work of the Expert Panel on Transit is part of, and key to, the Disentanglement process – a process in which the Province and Municipalities are participating to realign the roles they play in providing services to the public.

The 12 members of the panel are from across Ontario and were appointed for their expertise. The panel includes representatives of the Province, Municipalities, the Amalgamated Transit Union, the Ontario Advisory Council on Disability Issues, Environmentalists Plan Transportation and the Ontario Urban Transit Association (OUTA).

The members of the panel kept their respective organizations informed of the panel's activities. The OUTA conducted a consultation session with general managers representing association members from across Ontario.

This report is submitted to the Disentanglement Steering Committee, which consists of six Ontario Cabinet Ministers and six elected Municipal representatives appointed by the Association of Municipalities of Ontario (AMO). The Steering Committee has adopted a principle of "fiscal neutrality" which means that neither the Province nor the Municipal sector should bear a greater share of financial responsibility as a result of Disentanglement. The two parties have also agreed that the Province should assume the Municipal share of the costs of general welfare allowances.

Transit was identified by the Steering Committee as a program area where Municipalities may be able to take on more responsibility for decision-making and funding.

Principles and Process

The panel considered a wide range of options in light of principles developed by the panel and its view of appropriate roles for each level of government; the outcome of consultations; and the objectives of disentanglement. The principles guiding the panel's deliberations were:

Transit makes a major contribution to the economic, environmental and social well-being of Ontario.

Transit is a shared interest of the Province and Municipalities of Ontario.

The Province has an essential role to play in setting standards for transit services and ensuring that local transit operators can afford to meet them.

To maintain or improve transit services, the combined level of Provincial and Municipal funding must not decrease.

Local delivery of transit services makes sense.

The options considered and rejected by the panel included: Options that reduced substantially the Provincial contribution to transit services; proposed selective Provincial/Municipal funding – for example, for operational costs only or capital costs only; proposed blending capital and operating grants; or proposed a per capita block grant for transit or transit and roads.

The Panel's Recommendation

The panel considered a wide range of options for change in the Provincial-Municipal relationship in the area of transit, and determined that:

IT IS THE UNANIMOUS RECOMMENDATION OF THE EXPERT TRANSIT PANEL THAT THE EXISTING PROVINCIAL-MUNICIPAL RELATIONSHIP AND FUNDING MODEL FOR THE PROVISION OF TRANSIT SERVICES BE RETAINED.

The expert panel also believes that there can be improvements in the administration of the current transit programs to encourage greater efficiency and effectiveness. The panel has a number of specific proposals for program improvements.

The panel agreed that transit is a shared interest of the Province and Municipalities of Ontario, and it should continue to be a shared interest. Both levels of government have different but equally compelling reasons to continue to be involved in transit services.

The current division of responsibilities and sharing of costs reflect the need for both levels of government to maintain a significant role in the provision of transit services within communities. The members of the expert panel support the objectives of disentanglement, but they also believe that in the case of transit, the current balance of responsibility and accountability is a good one. The status quo represents a workable, cooperative approach to service provision and funding that is in the best interests of the public.

The panel does not believe that the existing model is perfect. Much fine-tuning is possible, and the panel makes a number of recommendations for improvements. But what has been accomplished under the existing arrangements for policy, planning and funding should be acknowledged.

Ontario has achieved the highest level of public transit usage per capita of any jurisdiction in North America. This accomplishment has been achieved while retaining the lowest proportion of taxpayer contributions to the cost of operations. Furthermore, the direct Provincial administrative costs of the transit program consume only 0.3 per cent of total Provincial program costs. This is good value for the taxpayer.

Workforce Impact

The panel considered each option in terms of its potential impact on the workforce. The impact of maintaining the existing relationship is nil. Improvements to the status quo could have future workforce impacts which must be identified and addressed as they arise.

Fiscal Options

The panel is concerned that major changes in the Provincial-Municipal relationship, particularly in funding, may endanger the viability of transit systems, particularly in smaller municipalities with limited sources of revenue. It is recognized, however, that the Disentanglement Steering Committee may not accept the status quo as a final resolution of this matter, given the need for fiscal neutrality and the assumption that the Province will take over full funding of general welfare allowances to recipients.

Therefore, the expert transit panel is presenting two options that could be used to reduce the Provincial financial contribution to transit services.

These options are not recommended by the panel.

We emphasize that adoption of either one of these options could seriously impair transit growth and services. These options would only be viable for consideration by the Steering Committee if the reduction in Provincial support were replaced by another source of revenue for use by the transit authorities that directly provide the service.

There is concern that if the Province reduces its financial interest in transit, the government may no longer be in a position to achieve its objectives for transit. There is also concern that if the Province cuts back on transit grants, some Municipalities may not be able to make up the shortfall, and transit services will deteriorate because of other competing priorities at the Municipal level. Each option has a financial estimate attached. It should be emphasized that these are estimates only, based on preliminary analysis of 1991-92 data by the Ministry of Transportation.

Option 1 – Operating 75/25

The sharing of net operating costs for conventional transit services could be modified from 50-50 to 75 per cent Municipal and 25 per cent Provincial. Capital cost-sharing would remain unchanged, as would funding for special services for persons with disabilities.

This option would reduce Provincial operating transfer payments to Municipalities for transit by an estimated \$104 million. This figure is only valid if there is no change in levels of service. The reduction in the Provincial share reflected in this option is not recommended by the panel because of the anticipated negative impact on services to Ontarians. This option implies a reduced interest by the Province in transit and a reduced influence in such areas as promotion of accessibility and integration of fares across municipal boundaries. This option does not disentangle the Provincial-Municipal relationship in transit.

This option could have a significant impact on transit operating workforces if service levels had to be decreased in response to lower Provincial operating subsidies. The panel understands that options in this report will be reviewed by the Workforce Impact Committee.

Option 2 - Capital 50/50 with exceptions

The sharing of capital costs for conventional transit services could be modified to reduce the Provincial share from 75 per cent to 50 per cent, except for projects that meet accepted criteria as being of “major Provincial interest”. Operating subsidies would remain unchanged, as would funding for special services for persons with disabilities.

This option would reduce Provincial contributions to transit capital by an estimated \$39 million. This estimate was provided without a definition of the criteria for “major Provincial interest”. This option is not recommended by the panel because of anticipated negative impact on investment in transit infrastructure and in the future expansion of existing systems. This option would affect the building of new infrastructure, such as terminal buildings and transit stations, and the replacement of existing surface bus fleets and the acquiring of vehicles for proposed new routes. It might also bias local or Provincial decision-making.

The impact of this option on the workforce involved in capital-related projects would be considerable. The panel understands that options in this report will be reviewed by the Workforce Impact Committee.

Building on Strength

The major driving force behind the Disentanglement effort is to make government better and simpler. The expert panel on transit does not advocate change in the Provincial-Municipal relationship or the funding models used to support transit. However, the panel firmly believes that the status quo can be improved. **There are policy, planning, administrative and other improvements that could be made to promote greater efficiency, effectiveness and equity within the transit program at both the Provincial and Municipal level.**

With this in mind, the panel made the following suggestions for consideration by the Province and Municipalities:

- The Province should develop a policy framework that recognizes and supports the broader benefits that transit services provide to Ontario communities, as well as to direct users.
- The Province should set clear environmental goals for transportation.
- The Province should develop a plan to integrate different modes and systems of transportation, including transit.

- Provincial planning for the future of transit in Ontario should involve all the stakeholders, including Municipalities, the transit workforce, environmental groups and the general public, with a particular emphasis on participation by transit users.
- A transit plan for the Greater Toronto Area should be developed.
- The Province should adopt land use guidelines that support the provision of transit services as government policy. The Planning Act and Municipal Official Plans should foster and support transit. Specifically, parking policies and development practices should be oriented to supporting the use of transit.
- The Province and Municipalities should work together to improve and streamline administrative procedures.
- The Province should require, as a condition of subsidy to Municipalities, that conventional transit and specialized transit for persons with disabilities have common, equitable fare structures.
- The Province should require, as a condition of subsidy, that Municipalities which offer reduced “seniors” fares make those fares available to all seniors, whether or not they are residents of the municipality.
- Public transportation should be linked to community activities and should support alternative modes of travel, such as cycling and walking.

Other Issues for Consideration

The panel put forward the following issues for consideration and future study by the Steering Committee.

- Provide new revenue sources to support transit.
- Integrate conventional and specialized municipal transit services.
- Extend Municipal cost-sharing to GO Transit service, modelled on the cost-sharing used to fund conventional municipal transit.
- Seek greater cooperation and coordination among municipal transit, school transportation and other community transportation services where practical.

1 INTRODUCTION

This report presents the views and conclusions of an Expert Panel which considered the roles and responsibilities – current and future – of the Provincial Government and Municipal Governments in the planning, management and operation of transit services. The work of the Expert Panel on Transit is part of, and key to, the Disentanglement process – a process in which the Province and Municipalities are participating to realign the roles they play in providing services to the public.

1.1 DISENTANGLEMENT

It is vital for an understanding of this report to be aware of the objectives and principles of Disentanglement, which provide the broad context for the panel's analysis of Provincial-Municipal roles and responsibilities in the area of transit.

Objectives and Principles

The focus of Disentanglement – sorting out which level of government is best suited to do what – has been discussed for several years. A number of recent studies have commented that the overlap in responsibilities for delivery and funding is confusing and may be inefficient. The current Disentanglement process, designed to address these problems, got underway late in 1991.

The key objectives of the Disentanglement process are to:

- create better, simpler government;
- improve the effectiveness and efficiency of service to the public;
- clarify which level of government is responsible for what services;
- enhance each government's capacity to plan and set priorities;
- improve financial accountability and fiscal management;
- sustain a Provincial-Municipal relationship which is characterized by partnership and informed decision-making.

Leading the reform process is a 12-member Steering Committee, made up of six Ontario Cabinet Ministers and six elected Municipal representatives appointed by the Association of Municipalities of Ontario (AMO). The Steering Committee is co-chaired by Municipal Affairs Minister Dave Cooke and AMO Past President John Harrison.

The Steering Committee has developed some working principles that indicate the direction that Disentanglement is intended to take. Those working principles are that:

- Responsibility and authority for strategy, policy and standards should be determined by each government's interest.
- The proportion of funding should be related to each government's level of responsibility and authority.
- Neither the Province nor the Municipal Sector should bear a greater share of fiscal responsibility as a result of Disentanglement.
- Services aimed at redistributing income, e.g. social assistance allowances, should not be financed from current municipal revenue sources. *
- Decision-making for service delivery should be the responsibility of the level of government which fully finances a service.
- The process of Disentanglement should ensure ongoing participation, consultation and communication with our employees and communities affected by this reform.

The Expert Panels

The Steering Committee chose to take a practical, phased approach to deciding which level of government should be responsible for the design, delivery and funding of a whole range of different services and programs. It identified five areas for immediate study as Phase 1 of the process, and establish expert panels to examine them.

* The wording of this principle is under review by the Steering Committee.

Five expert panels were established to examine the Provincial-Municipal relationship and provide analysis and advice in the following areas:

- transit;
- roads;
- property assessment services;
- Municipal police services budgets;
- general welfare assistance.

Each panel was given the task of presenting its findings to the Steering Committee for its consideration.

The reports produced by these expert panels may also receive comment from two other Committees which are part of the Disentanglement process: the Coordinating Committee, made up of senior staff of the Province and Municipalities and the chair of the Workforce Impact Committee; and the Workforce Impact Committee, made up of public service union and management representatives.

The selection of programs for review by expert panels was influenced by two major factors.

The Province and Municipalities agreed, through the Disentanglement process, that there should be full Provincial financing of the general welfare allowances provided to recipients. Municipalities now pay 20 per cent of the costs of those allowances.

Since the Province would be assuming a considerably increased financial responsibility in welfare, the parties also agreed that the Disentanglement process should be fiscally neutral for both partners and their constituents. Fiscal neutrality means that neither the Province nor the Municipal sector should bear a greater share of financial responsibility as a result of Disentanglement.

Based on the principle of fiscal neutrality, if the Province takes over responsibility for funding welfare allowances, Municipalities would have to assume greater responsibility for funding in other areas. The areas which the Steering Committee has identified as having the greatest potential for increased Municipal responsibility for programs, funding and the renewal of the Provincial-Municipal relationship, are municipal roads, municipal transit and property assessment services. Both partners agreed to determine jointly any "trade-offs" in municipal programs.

1.2 THE TRANSIT PANEL

Terms of Reference and Membership

The terms of reference of the Expert Panel on Transit provided that the panel would focus on the existing regulatory environment and conditional grants for transit services and offer comment on the validity of the current Provincial-Municipal relationship in terms of:

- the working principles guiding disentanglement;
- the transportation interests and needs of the Province and Municipalities; and
- the accountability and service achieved.

According to the terms of reference, the transit panel was to focus on the conditional grant programs that provide support for transit operating budgets and capital improvements. The panel was directed to consider the appropriateness of the grant programs, what approaches should or should not be considered, how appropriate a proposed change would be, and whether changes in roles were appropriate and implementable.

The terms of reference also called attention, at the panel's request, to related matters such as school transportation, GO Transit and revenue sources appropriate to transit. In addition, in light of the Province's intention to seek greater integration of conventional transit and specialized transit for persons with disabilities, the panel also asked that transit for persons with disabilities be included in its terms of reference.

The Province nominated its representatives on the panel from the Ministry of Transportation. The Association of Municipalities of Ontario (AMO) nominated Municipal representatives. Labour was represented by the Amalgamated Transit Union. The Ontario Advisory Council on Disability Issues nominated a panel member, as did Environmentalists Plan Transportation, and the Ontario Urban Transit Association.

The 12 members of the transit panel are:

Al Leach, Co-Chair
Chief General Manager
Toronto Transit Commission

Bob Oddson, Co-Chair
Director
Program Priority and Development Branch
Ministry of Transportation

John Bonsall
General Manager
Ottawa-Carleton Transit Commission (OC Transpo)

Al Cormier
Executive Director
Ontario Urban Transit Association

Joan Doiron
Environmentalists Plan Transportation
Transportation Options

David Ferguson
Manager
Public Transportation Office
Ministry of Transportation

Ken Foster
Executive Secretary, Canadian Council, Ontario Division
Amalgamated Transit Union

Juri Pill
General Manager, Planning and Administration
Toronto Transit Commission

Richard Puccini
Regional Director, London
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David Ridley
Director of Transportation Operations
City of Sudbury

Dr. Shirley Van Hoof
Chairman, Ontario Advisory Council on Disability Issues
Multiple Sclerosis Society of Canada
London

Peter Wagland
Deputy Town Manager, Community Services
Town of Oakville

The Provincial-Local Relations Secretariat, established by the Municipal Affairs Minister, provided policy and administrative support to the panel.

The panel met for the first time in April, 1992, and met once or twice monthly until its report was finalized in October. Members of the panel accepted the responsibility of keeping their various organizations and related stakeholder groups informed.

Consultations and Communications

After every panel meeting, a report on highlights of the meeting and progress toward decision-making was provided by means of a FAX-COM, a short summary faxed out to all members. Members of the panel agreed to keep the executives of their own associations and related stakeholder groups apprised of what was happening.

The FAX-COM method was used to communicate with a number of stakeholder groups and to provide information for publications that would reach a large number of interested individuals and organizations.

Municipalities were kept informed through publications such as Municipal World, and the Ministry of Municipal Affairs' newsletter Background. The Provincial-Local Relations Secretariat included news on the transit panel in its newsletter called Update on Disentanglement which is widely distributed.

The Green Coalition assisted with communications with environmental groups and the Ontario Advisory Council on Disability Issues helped keep groups representing persons with disabilities informed.

The Ontario Urban Transit Association (OUTA) conducted a consultation meeting in August 1992 in Toronto to solicit opinion and advice to assist the deliberations of the transit panel. The meeting was attended by 30 general managers representing members of the association from across Ontario. The results of the consultation were provided to the panel by the representative of the OUTA. A report on that consultation, prepared by OUTA, is included with this report as Appendix 1.

In addition to that consultation, presentations were made to the panel by the Ontario Public School Trustees Association and the Ministry of Education on the subject of school transportation, and by the Ontario Motor Coach Association on the topic of contract transit service. The record of those presentations is included in Appendix 2.

1.3 ORGANIZATION OF THIS REPORT

This first chapter is intended to provide background information on disentanglement and the work of the expert panel and to provide a context for what follows in the rest of the report.

Chapter 2 discusses the current situation in transit services and the current Provincial-Municipal roles and cost-sharing.

Chapter 3 outlines the principles used by the transit panel to reach its decisions.

Chapter 4 includes the conclusions and recommendation of the panel.

Chapter 5 sets out issues for further study.

Chapter 6, entitled “Building on Strength”, provides the panel’s suggestions for improving policy, planning, administration and other aspects of the status quo.

In Chapter 7, there are a few “final words” from the panel.

2 THE CURRENT RELATIONSHIP

Approximately 6.8 million people in 80 municipalities across the province – more than 72 per cent of Ontario's population – are served by conventional public transit. Passenger trips on transit systems in communities across Ontario total more than 700 million per year.

Much of the growth in transit services has taken place in the last two decades. Governments became involved in transit in a major way in the late 1960s and early 1970s when patterns of urban development were based on the automobile, and the increased reliance on cars made it uneconomic to fund transit entirely from the fare box.

Today, it is still only in the largest urban centres that transit is a significant commuter alternative. In those larger centres, transit has a stronger presence than in smaller places where regular transit riders tend to be limited largely to elderly people, students, non-drivers and people without cars. In all centres, transit is primarily by bus. In Greater Toronto Area, where there is rail rapid transit, and in Ottawa, where there is a transitway, many passengers choose transit as a "better way" to get to work than taking the car.

Both the Province and Municipalities play major roles in transit in the 1990s. Both levels of government engage in planning for transit.

Currently, the Province has legislative authority for transit. It develops policy guidelines and sets equipment, safety and access standards. It provides technical and technological assistance to Municipalities and supports research and development. The Province also operates the inter-regional GO bus and rail transit system which provides service linking Metropolitan Toronto to communities within the Greater Toronto and surrounding area.

Municipalities plan and operate the transit service in their communities. The service can be delivered through a local transit authority, commission or Municipal department. Municipalities set local service policies, schedules and fares within their service area.

Funding for transit services is shared among the Province, Municipalities and transit riders, with the exception of GO Transit. There is no Municipal financial contribution to GO Transit.

For approved capital expenditures (for example, building subway lines and stations, purchasing buses and building garages), the Province provides a 75 per cent subsidy and Municipalities pay 25 per cent. For demonstration projects which are developing new technologies or service concepts, the Province can provide a subsidy of up to 100 per cent.

The Provincial-Municipal subsidy of the operating costs of running a transit system (operating costs include, for example, the wages of drivers, ticket-sellers, maintenance staff and the cost of fuel) is based on what is called the Revenue-Cost Formula. A target level for the contribution from the transit user is established, based on service area and population density. The formula ranges from 50 per cent in smaller municipalities to 68 per cent in Metropolitan Toronto.

The Revenue-Cost Formula is structured so that if ridership and fare revenues meet the target level, the net operating costs are shared 50-50 by the Province and the Municipality. However, if ridership and fare revenues fall below the target, the Municipality has to pay 75 per cent of the shortfall. If, on the other hand, ridership and fare revenues exceed the target, the Municipality pays less than a 50 per cent share.

Table 1 shows the total expenditures for transit for Ontario; the expenditures for transit in the Greater Toronto Area (GTA) which includes Metropolitan Toronto and the Regions of Durham, Halton, Peel and York; in Metropolitan Toronto; in Ottawa-Carleton; and in the rest of Ontario. The figures indicate the investment in transit in the GTA and Ottawa-Carleton, relative to the other communities across the province.

In 176 municipalities, there are specialized transit services for persons with physical disabilities. In some municipalities, for example Metropolitan Toronto, the special transit service is operated by the transit authority. In some smaller communities, the service is provided by a community non-profit organization or a private operator on contract to the Municipality.

The subsidies for special transit differ from the subsidies for conventional transit because fares cover a much smaller proportion of the total operating cost. The basic Provincial subsidy for capital costs is 50 per cent, but there is provision for capital grants of 75 per cent for replacement of outmoded scheduling systems to improve operating efficiency.

The Province guarantees that it will contribute no less than 50 per cent of the net operating costs of the service. It pays a basic 25 per cent of operating costs (or 30 per cent if the Municipality does not receive capital funding), plus an amount per passenger trip – \$3.50 in 1992 – for every passenger carried by the operator.

TABLE 1

1991 COST OF CONVENTIONAL TRANSIT IN ONTARIO (000's)								
	PROVINCIAL SUPPORT	%	MUNICIPAL SUPPORT	%	USER SUPPORT	%	RIDERSHIP	%
METRO/TTC	205,859	55	164,488	55	454,256	67	424,200	65
GTA	40,087	11	29,992	10	46,692	7	46,340	7
OTTAWA- CARLETON	57,259	15	40,274	13	75,492	11	79,227	12
OTHERS	68,882	19	64,271	22	97,003	15	101,196	16
TOTAL	372,087		299,025		673,443		650,963	

- * conventional transit only (excludes demo funding)
- * combined capital/operating support
- * excludes GO-TRANSIT
- * GTA includes Durham, York, Peel, Halton
- * Figures supplied for Municipal Support, User Support, Ridership, were supplied from the 1991 CUTA Annual Report. User Support figures do not include "other" revenue sources such as advertising.
- * All municipal costs may not be included in Municipal Support figures depending on how each municipality finances their transit program.
- * Figures supplied for Provincial Support were supplied by the MTO Public Transportation Office.

3 PRINCIPLES

The Expert Transit panel developed principles to guide the process of screening options. Some of the panel's principles were adapted from the principles of disentanglement and others were based on the particular needs and characteristics of transit services.

Transit makes a major contribution to the economic, environmental and social well-being of Ontario.

For people who do not have a car, transit provides an essential physical connection to the community in which they live. It gets them to work and home again. For those who choose not to drive, transit provides a convenient, inexpensive and environmentally sound alternative.

Transit contributes to the quality of life of local communities by making employment, commercial, recreational and other centres accessible to all residents. It also provides jobs in construction and operation.

By reducing reliance on cars, transit reduces air pollution. (See Table 2) The transport of large numbers of people in trains, buses and rapid transit systems is more energy-efficient than transport of one or two people by private car. Transit helps make Ontario cities cleaner and less congested by reducing traffic gridlock and by lowering demand for more parking lots and new roads and highways. Transit also contributes to the efficient use of available land in urban areas.

Transit is a shared interest of the Province and Municipalities of Ontario.

The panel believes that both levels of government have a significant and ongoing role to play in transit services.

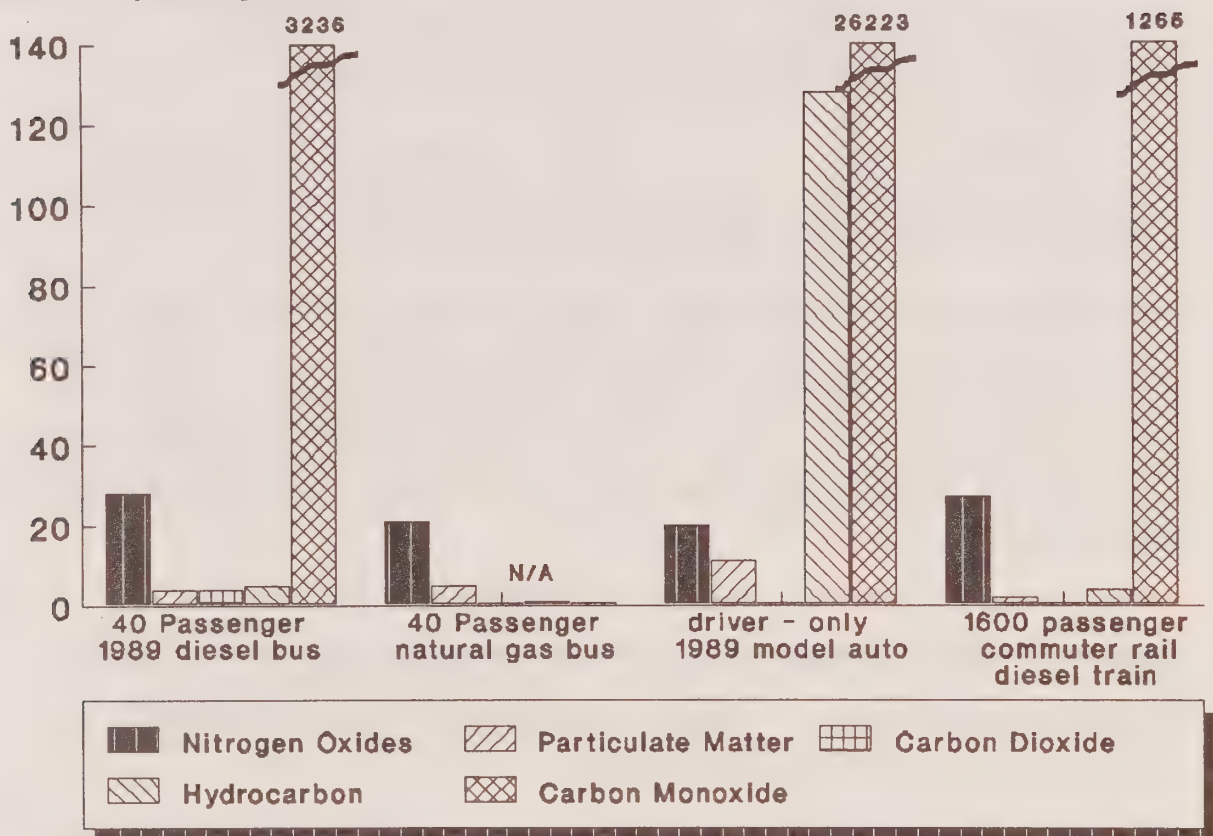
The Provincial Interest – Its investment in transit enables the Province to pursue a number of important objectives, not all of which are specifically related to transportation. The Province has a major interest in continuing to support and promote the economic, environmental and social benefits of transit that affect the liveability of Ontario's urban centres.

Table 2

CUTA Modal Shift to Transit

**Exhibit 1:
Air Pollution Emissions
by Transportation Mode**

Emissions:
grams/100 passenger km



Sources: Assessment of Transit Propulsion Options in Ontario,
Transportation Technology and Energy Branch,
Ministry of Transportation of Ontario, 1991

Communications with Environment Canada, May 1992

Communications with Ministry of Transportation of Ontario, June 1992

The Province has an interest in promoting mobility and accessibility for people in communities across Ontario, including persons with physical disabilities. Its grant system for specialized transit provides incentives to Municipalities to provide these services.

The Province has an interest in ensuring the integration of municipal transit systems so that riders can move from one municipal jurisdiction to another to reach their destination. Provincial objectives are served by investment in a system that makes connections between transit and other transportation modes (for example, parking lots for commuters at subway and train stations).

There is also a role for the Province in promoting transit technology and the manufacturing sector to encourage employment, interprovincial and international trade.

The Municipal Interest – There is Municipal interest where the impacts of decisions are local and when location variation is desirable or acceptable. One of the requirements of a good transit system is that it meet the unique needs of the community for public transportation. There can be impacts in neighbouring jurisdictions, but the major focus is local – people get the local bus in their own neighbourhoods. Decisions about the type and frequency of service are usually a matter of local interest and local circumstances.

Municipalities have an interest in ensuring that transit services suit their communities, and that those services are affordable and accessible. The needs of the community may vary considerably from municipality to municipality.

Transit affects and is affected by Municipal land use planning, road and traffic patterns and location of major community resources, such as community centres and local parks, all of which are within Municipal jurisdiction.

The Province has an essential role to play in setting standards for transit services and ensuring that local transit operators can afford to meet them.

The Province must ensure that transit systems across Ontario comply with province-wide standards, and that there are sufficient resources, especially in smaller municipalities, to meet those standards. Province-wide standards are appropriate in the following areas:

- official planning guidelines;
- minimum standards for vehicle safety; and
- vehicle accessibility.

The Province should require Municipalities to set their own standards for transit services appropriate to the needs of the local area. The Province should not be involved in operational decisions at the local level.

To maintain or improve transit services, the combined level of Provincial and Municipal funding must not decrease.

The expert panel believes strongly that nothing should be done to jeopardize the future of transit services in Ontario.

There is a delicate balance among three factors in transit – services, ridership and fares. Service cutbacks and fare increases both negatively affect ridership. When fewer people use transit, fare revenues decline and both service cutbacks and higher fares are more likely.

Transit is extremely vulnerable to economic fluctuations – when the economy goes into a slump and fewer people have jobs, ridership decreases and revenues decline. Falling revenues increase pressure to raise fares, but if fares go up too high too fast, more people stop using transit. And the cycle continues.

Public subsidy of transit services is necessary to keep those factors in balance. To ensure that service is maintained or improved, the combined level of Provincial and Municipal funding must not decrease. If either sector chooses to reduce its contribution to transit, there must be some way of making up the loss from other revenue sources.

Local delivery of transit services makes sense.

According to the disentanglement principles, decisions on service delivery should rest with the government which fully funds the service. However, transit does not fit this simple model. Since there are significant Provincial and Municipal interests and both governments share funding, the choice of who should deliver transit services must, therefore, centre on which government is the more appropriate service-provider.

The panel sees Municipalities as the most appropriate level of government to provide transit services. Decisions on management and operation of the service have an impact mainly in the local area. Local funding, from ratepayers as well as users, ensures accountability in the making of financial decisions.

4 CONCLUSIONS AND RECOMMENDATION

This chapter describes the screening process conducted by the panel to select acceptable options, and the conclusions reached by the panel after careful consideration and debate.

4.1 SCREENING OPTIONS

At one point in the panel's debates, there were 18 options on the table. A number of these options failed the principles "test". This test involved considering if the option complied with the principles described in the previous chapter. The panel decided that any option that did not comply with any one of the principles should be rejected.

The technical working papers of the transit panel are available on request through the Provincial-Local Relations Secretariat.

Basically the options considered and rejected fell within the following categories:

- Options that reduced substantially the Provincial contribution to transit services – for example, one option proposed an end to Provincial conditional grants for transit services; another proposed that the Province would only support projects deemed by the Province to be of Provincial interest.

These options were considered unacceptable because they would undermine the future financial viability of transit services and they violated the principle of a shared interest in transit services by both levels of government and funding proportionate to that interest. Municipalities would be unable to maintain the current level of transit services without sustained Provincial support. The Province's ability to pursue Provincial interests would either be removed or be limited to specific projects. These options do not recognize the general Provincial interest in promoting transit for social, environmental and other reasons.

- Options that proposed selective Provincial/Municipal funding – for example, for operational costs only or capital costs only.

These options were considered unacceptable because they would endanger either operational viability or potential capital expansion. For example, selective capital funding might result in capital expansion for new routes without the availability of sufficient ongoing funding for operations on those routes. Shared funding requires both parties to consider the full financial implications of decisions. Funding for both operations and capital is essential to safeguard the future of transit services and to ensure that transit continues to contribute to the economic, environmental and social well-being of Ontario communities.

- Options that proposed blending capital and operating grants.

The combination of operating and capital funding has complexities which contravene the objectives of disentanglement. It cannot deal easily with large capital projects which require major financing. Smaller Municipalities in particular would have difficulty carrying the cost of a major project over many years, with a multi-year blended grant.

- Options that proposed a per capita block grant for transit or transit and roads.

These options were considered unacceptable because block grants would not require matching Municipal contributions, creating uncertainty about the extent of Municipal funding for transit. The current arrangement provides some incentive to Municipalities to provide appropriate levels of service.

There was also concern about the impact on Provincial and Municipal workforces related to all of the above options.

As a result of the screening process, the panel reached agreement on a recommendation to the Steering Committee. That recommendation is discussed in the next section. In addition, two fiscal options are put before the Steering Committee. They are not recommended by the panel. Reasons are given for their presentation in this report and the panel's position. There were also other options that, for different reasons, were set aside to be presented to the Steering Committee for further consideration and future study. These options are discussed in the next chapter.

4.2 PRESERVING WHAT WORKS

Having considered a wide range of options for change in the Provincial-Municipal relationship in the area of transit, the expert panel has reached a **unanimous** conclusion.

We believe that the existing relationship and funding arrangements should be retained.

The panel agreed that transit is a shared interest of the Province and Municipalities of Ontario, and it should continue to be a shared interest. In the previous chapter, we discussed how both levels of government have different but equally compelling reasons to continue to be involved in transit services.

The current division of responsibilities and sharing of costs reflect the need for both levels of government to maintain a significant role in the provision of transit services within communities. The members of the expert panel support the objectives of disentanglement, but we believe that in the case of transit, the current balance of responsibility and accountability is a good one. In our view, it represents a workable, cooperative approach to service provision and funding that is in the best interests of the public.

Success of the Current Arrangements

The current relationship has much to commend it. This is not to imply that the existing model is perfect. Much fine-tuning is possible, and the panel makes a number of recommendations for improvements in Chapter 6. But what has been accomplished under the existing arrangements for policy, planning and funding should be acknowledged.

Ontario has achieved the highest level of public transit usage per capita of any jurisdiction in North America. This accomplishment has been achieved while retaining the lowest proportion of taxpayer contributions to the cost of operations. Furthermore, the direct Provincial administrative costs of the transit program consume only 0.3 per cent of total Provincial program costs. This is good value for the taxpayer.

Where other jurisdictions are just beginning to develop their transit networks, Ontario has a relatively well-developed system and is recognized as a leader in transit across the continent. The transit systems in Ontario today were created and sustained with the strong support provided by both the Province and Municipalities. That partnership should be maintained so that Ontario can continue to experience the benefits that transit services provide.

Transit services contribute to Ontario's economic vitality; transit services bring communities together and allow people of modest means to have access to community services; transit services make Ontario cities cleaner and the air more breathable. The operating success of Ontario's transit systems assists the export activities of supplier industries.

The panel notes that before the Province became involved in the direct funding of municipal transit services, very few cities had transit systems and even fewer had the level of service now provided. The current funding model, with conditional Provincial grants for transit operation and capital, enables – and provides incentives to – Municipalities to provide appropriate levels of transit services.

Municipalities and their transit authorities have provided the management, operational expertise, local planning and funding to create and maintain transit services to meet the unique needs of their communities.

Protecting the Future

While much has been achieved over the last quarter-century, transit is still vulnerable to economic and other pressures. In many communities, transit services and ridership are limited. The continued viability of transit cannot be taken for granted. To be financially viable and to achieve environmental and social benefits, public transit requires support from the Province and Municipalities. Continued financial contribution for transit by both the Province and Municipalities is essential. A reduction in overall government support is not acceptable to the panel.

Without strong support through public policy and public subsidies, transit cannot compete against the private automobile. The public subsidy on use of the private car is not as obvious as the subsidy for transit. The panel is not arguing against public expenditures on roads. On the contrary, it must be recognized that virtually all transit trips in Ontario rely on buses travelling over the municipal road system. The Province and Municipalities must be careful to protect the total transportation system.

In our view, maintaining and improving the existing Provincial-Municipal relationship and financial arrangements represents the best way of keeping transit in Ontario viable. Any reduction in Provincial support that was not offset by guarantees of ongoing financial support from other sources to make up the shortfall would seriously threaten the future of this valuable service.

Shared Interest

The principles of disentanglement state that responsibility and authority for strategy, policy and standards should be determined by each government's interest, and that the proportion of funding should be related to each government's level of responsibility and authority.

The working principles of disentanglement would suggest that the Province should continue to play an important funding role based on the Provincial interest in setting equipment, safety and access standards for transit. If the Province were to reduce its level of financial support for transit, then its influence over such matters as inter-municipal integration of services and expansion of fully accessible transit would not be as strong.

In the same vein, Municipalities have a strong interest in local strategies and policies for transit services because of their impact on community life. On that basis, Municipalities should maintain their funding role, in line with their responsibilities and authority at the local level.

In evaluating the current relationship and fiscal arrangements, the panel has determined that both levels of government share significant interest in transit and that the proportion of funding is reasonable, given the roles played by the funders.

Workforce Impact

The panel considered each option in terms of its potential impact on the workforce. The impact of maintaining the existing relationship is nil. Improvements to the status quo could have future workforce impacts which must be identified and addressed as they arise.

RECOMMENDATION:

IT IS THE UNANIMOUS RECOMMENDATION OF THE EXPERT TRANSIT PANEL THAT THE EXISTING PROVINCIAL-MUNICIPAL RELATIONSHIP AND FUNDING MODEL FOR THE PROVISION OF TRANSIT SERVICES BE RETAINED.

The expert panel believes that there can be improvements in the administration of the current transit programs to encourage greater efficiency and effectiveness. The panel has a number of specific proposals for program improvements within the context of the existing relationship. These are discussed in Chapter 6.

4.3 FISCAL OPTIONS

The panel is concerned that major changes in the Provincial-Municipal relationship, particularly in funding, may endanger the viability of transit systems, particularly in smaller municipalities with limited sources of revenue. We recognize, however, that the Disentanglement Steering Committee may not accept the status quo as a final resolution of this matter, given the need for fiscal neutrality and the assumption that the Province will take over full funding of general welfare allowances to recipients.

Therefore, the expert transit panel is presenting two options that could be used to reduce the Provincial financial contribution to transit services. **These options are not recommended by the panel.**

We emphasize that adoption of either one of these options could seriously impair transit growth and services. These options would only be viable for consideration by the Steering Committee if the reduction in Provincial support were replaced by another source of revenue for use by the transit authorities that directly provide the service.

There is concern that if the Province reduces its financial interest in transit, the government may no longer be in a position to achieve its objectives for transit. There is also concern that if the Province cuts back on transit grants, some Municipalities may not be able to make up the shortfall, and transit services will deteriorate because of other competing priorities at the Municipal level.

Option 1 – Operating 75/25

The sharing of net operating costs for conventional transit services could be modified from 50-50 to 75 per cent Municipal and 25 per cent Provincial. Capital cost-sharing would remain unchanged, as would funding for special services for persons with disabilities.

This option would reduce Provincial operating transfer payments to Municipalities for transit by an estimated \$104 million. It should be emphasized that this is an estimate only, based on preliminary analysis of 1991-92 data by the Ministry of Transportation. This figure is only valid if there is no change in levels of service.

The reduction in the Provincial share reflected in this option is not recommended by the panel because of the anticipated negative impact on services to Ontarians. This option implies a reduced interest by the Province in transit and a reduced influence in such areas as promotion of accessibility and integration of fares across municipal boundaries.

This option does not disentangle the Provincial-Municipal relationship in transit.

Workforce Impact

This option could have a significant impact on transit operating workforces if service levels had to be decreased in response to lower Provincial operating subsidies. The panel understands that options in this report will be reviewed by the Workforce Impact Committee.

Option 2 - Capital 50/50 with exceptions

The sharing of capital costs for conventional transit services could be modified to reduce the Provincial share from 75 per cent to 50 per cent, except for projects that meet accepted criteria as being of "major Provincial interest". Operating subsidies would remain unchanged, as would funding for special services for persons with disabilities.

This option would reduce Provincial contributions to transit capital by an estimated \$39 million. It should be emphasized that this is an estimate only, based on preliminary analysis of 1991-92 data by the Ministry of Transportation. The estimate was provided without a definition of the criteria for "major Provincial interest".

This option is not recommended by the panel because of anticipated negative impact on investment in transit infrastructure and in the future expansion of existing systems. This option would affect the building of new infrastructure, such as terminal buildings and transit stations, and the replacement of existing surface bus fleets and the acquiring of vehicles for proposed new routes. It might also bias local or Provincial decision-making.

The reduction in the Provincial capital grants would limit the ability of Municipalities to finance major transit capital projects for replacement or expansion unless equivalent funds were made available on a continuous basis. It would particularly curtail growth of rapid transit systems because of their capital-intensive nature.

This option implies that the Province has a variable interest in transit, depending on the type of project. The Province would retain a significant interest in transit capital projects that have a Provincial impact, for example, on inter-regional travel or that serve Provincial objectives in such areas as economic development or environmental protection. Projects deemed to be of major interest only to a Municipality would receive the lower rate of Provincial grant.

Given that Provincial and Municipal interests are inextricably linked in transit, it would be difficult to establish a clear definition of what constituted the Provincial interest in terms of specific projects. This could lead to confusion and conflict.

Workforce Impact

The impact of this option on the workforce involved in capital-related projects would be considerable. The panel understands that options in this report will be reviewed by the Workforce Impact Committee.

5 ISSUES FOR CONSIDERATION AND FURTHER STUDY

There are certain issues which the panel decided should be given further consideration. These issues were raised in the list of options considered by the panel. Some options were considered to be outside the panel's mandate. Others tended to be unrelated to fiscal disentanglement issues, relating instead to efficiencies within the municipal system. Panel members did not feel that their group was the appropriate forum to study these issues further, particularly given the tight timeframe for this process and the mandate of the panel.

The Steering Committee may refer any or all of these issues to a suitable forum for further study.

1. Provide new revenue sources to support transit.

This option does not address the current Provincial-Municipal relationship but rather deals with alternative revenue sources for transit. As such, it is not a distinct disentanglement option. Revenues which could be used for transit authorities could include, for example, commercial concentration tax, direct lot levies, development charges, parking taxes and road user charges. It was beyond the scope and resources of the panel to develop these ideas fully. However, some members of the panel believe that there are a number of revenue strategies that could be used to support transit directly and financially or that could influence the public's transportation choices. These strategies should be explored.

2. Integrate conventional and specialized municipal transit services.

The Ministry of Transportation administers the funding programs for conventional and specialized transit services. The Minister has set full accessibility of conventional transit as an objective. The panel agreed that any approach to transit in future should support maximum accessibility for all riders. However, specialized transit for persons with disabilities will still be required to serve the large number of people who will not be able to use fully accessible conventional services.

3. Extend Municipal cost-sharing to GO Transit service, modelled on the cost-sharing used to fund conventional municipal transit.

This option was considered to be outside the mandate of the panel. However, the panel recognized that there is a clear link between GO Transit and municipal transit in the Greater Toronto Area. The panel supports the investigation of cost-sharing of GO services to encourage coordination and effectiveness of both services. Further study of the implications of potential integration should be undertaken, including the possibility of creating a Greater Toronto Area (GTA) Transit Authority to oversee, coordinate, plan and manage transit services in this highly urbanized area.

The panel recognizes there would be advantages to a coordinated body for transit in the GTA, given the volume and movement of cross-boundary transit passengers within this large geographic area. Municipal organization in the GTA and the resulting service orientations are not always consistent with the major cross-boundary transit demands.

More in-depth review of this option should be undertaken by the Province prior to adoption of any other method of improved integration within the GTA.

4. Seek greater cooperation and coordination among municipal transit, school transportation and other community transportation services where practical.

This option was seen as outside the panel's mandate. However, the panel believes there is potential for greater efficiency, effectiveness and cost-savings among the providers of both public transportation and school bus services. In areas where service-providers are duplicating services, joint efforts could result in better use of equipment and resources. There are a number of ministries, boards and other bodies involved in funding these services, including the Ministries of Transportation, Education, Health, and Community and Social Services. Services are provided by a variety of boards and agencies at the local level.

The specific area of interest of the panel was the possibility of greater use of public transit by students in Grade 5 and above. The special needs of younger students were recognized as likely precluding their use of public transit.

Detailed study of opportunities should be undertaken by all parties responsible for the provision of these services.

6 BUILDING ON STRENGTH

The major driving force behind the Disentanglement effort is to make government better and simpler. The expert panel on transit does not advocate change in the Provincial-Municipal relationship or the funding models used to support transit. However, the panel firmly believes that the status quo can be improved.

There are policy, planning, administrative and other improvements that could be made to promote greater efficiency, effectiveness and equity within the transit program at both the Provincial and Municipal level.

With this in mind, the panel makes the following suggestions for consideration by the Province and Municipalities:

The Province should develop a policy framework that recognizes and supports the broader benefits that transit services provide to Ontario communities, as well as to direct users.

Transit should receive more prominence in all aspects of policy and planning, and that the social benefits of transit services should be recognized. Transit services should be evaluated on the basis of their impact on the whole community – quality of life, social equity and environmental well-being – not simply on the direct impact of services on transit riders.

The Province should set clear environmental goals for transportation.

Decisions related to transportation should have a clear environmental perspective. The environment must become an integral part of all transportation planning.

The Province should develop a plan to integrate different modes and systems of transportation, including transit.

Ontario needs a blueprint for integration of different transportation modes and for integration of transportation systems crossing municipal boundaries. This blueprint would provide clearer direction for regional and province-wide transportation planning.

Provincial planning for the future of transit in Ontario should involve all the stakeholders, including Municipalities, the transit workforce, environmental groups and the general public, with a particular emphasis on participation by transit users.

It is essential that all those interested be brought to the table to ensure that a variety of interests and concerns is presented. A consultative approach is consistent with the working principles of Disentanglement.

A transit plan for the Greater Toronto Area should be developed.

Planning for transit services should involve critical cross-boundary transit links and connections between GO Transit and municipal transit.

The Province should adopt land use guidelines that support the provision of transit services as government policy. The Planning Act and Municipal Official Plans should foster and support transit. Specifically, parking policies and development practices should be oriented to supporting the use of transit.

Land use has an enormous impact on transit. Provincial guidelines and Municipal Official Plans should recognize and promote transit, its use and growth, as an alternative to the car in Ontario's cities and towns. For example, the Planning Act should be modified to recognize the need for property dedication to transit as a condition of plan approval.

The Province and Municipalities should work together to improve and streamline administrative procedures.

There are a number of improvements that could be made. The panel has identified some examples:

- The subsidy payment process should be modified to allow more streamlined processes to be adopted.
- The requirement in the Public Vehicles Act for a Public Vehicle (PV) licence for cross-boundary public transportation trips should be eliminated.
- The Highway Traffic Act should be amended to give priority to buses re-entering traffic from bus stops.

The Province should require, as a condition of subsidy to Municipalities, that conventional transit and specialized transit for persons with disabilities have common, equitable fare structures.

The Province should require, as a condition of subsidy, that Municipalities which offer reduced “seniors” fares make those fares available to all seniors, whether or not they are residents of the municipality.

Both these recommendations are meant to promote greater equity. There should be a common fare structure for persons using conventional transit and those who are served by specialized transit. There should also be equity in the offering of reduced fares to seniors – a senior should not have to prove residency in the municipality to qualify for a reduced fare.

Public transportation should be linked to community activities and should support alternative modes of travel, such as cycling and walking.

Transit is the key alternative mode of transportation to the car in urban communities. Transit should provide convenient access to community activities and it should be linked to other alternatives, such as cycling and walking. There should be provision in transportation design for each mode of travel to occur in a safe, efficient manner without conflict.

Walking is already part of the system because most people walk to their nearest transit stop; in fact, the distance to the bus stop, coupled with the frequency of service, is a major factor in the attractiveness of transit. Some people who live in outlying communities drive relatively long distances to a transit station to “park and ride”. Many people who cycle also want to use transit on the same trip. Cycling should be recognized as a legitimate means of transportation and steps taken to promote it, including accommodating bicycles on the transit system.

7 FINAL WORDS

The panel wishes to reiterate its final conclusion – that **Ontario should build on existing strength in transit.**

If the Province wishes Ontario to continue to be in the forefront of transit in North America in the 21st century, it should maintain its financial support for transit and its relationship with Municipalities in the delivery of transit services. Municipalities should maintain their commitment to transit as an effective, environmentally-sustainable means of providing alternative travel options for the people living in Ontario's urban communities.

The appropriateness and cost-effectiveness of the Provincial and Municipal investment in transit can be measured not only in terms of the relative share of the respective funders, but also by evaluating the contribution of transit to the economic, social and environmental well-being of Ontario.

Provincial and Municipal responsibilities in transit are compatible. In our view, it is in the interests of the Province, Municipalities and the public to retain the existing partnership and the current funding model, and to make improvements in a system that is working well.

* * *

APPENDIX 1

REPORT BY THE

ONTARIO URBAN TRANSIT ASSOCIATION

ON ITS CONSULTATION

Date: August 13, 1992

Memo To: Transit Panel Experts

From: A. Cormier

Subject: ***Provincial - Municipal Disentanglement Initiative***
Our file ref: P - 28 (a)

This is to report on the outcome of a meeting of OUTA members held on August 4, 1992 to discuss the above-noted subject. The purpose of the meeting was to provide the members with a status report on Disentanglement Initiative and to seek their input as to the options discussed and those retained by the Panel for further consideration.

The meeting was attended by 30 members from various size cities and various regions of Ontario. Despite the fact that the invitation urged the members to bring their elected representatives along, only one showed up. The Panel was represented by Rudi Wycliffe and OUTA's Executive Director.

Mr. Wycliffe gave an overview of the Disentanglement Initiative and I reviewed the long and short lists of options studied by the panel. A very enthusiastic and realistic discussion followed. Highlights can be summarized as follows:

1. It is clear that in recent years, there has been a switch in provincial budgets towards the softer "social" programs. This trend is likely to continue. This places a greater obligation on the transit community, to emphasize the social benefits of urban transit.

We need a mechanism to recognize the social benefits of transit and to allocate provincial funds accordingly. For example, without decent urban transit services, the cost of General Welfare would increase substantially in many communities, as other transportation means are subsidized.

The Transit Panel has to better demonstrate the benefits of transit and the need for continued subsidization.

2. Reductions in provincial funding will result in reduced transit services in small and medium size cities. Metro Toronto and Ottawa may be the only cities in which levels of transit services would not be seriously curtailed.
3. We have to look at the interests of the taxpayer. Continuation of the status quo is highly unlikely. Transit cannot be viewed in isolation. The Panel is not providing the Government with a wide enough spectrum of choices. There is a danger that the Transit Panel Experts is too self serving.

4. We need another option which provides broad transportation perspectives. We need an overall look at transportation under the Disentanglement exercise. The Province should issue strong transportation policies and guidelines for the municipalities to adhere to. Related Provincial policies (i.e. development and land use) should be pro transit. We need to come to grips with where transit fits or ought to fit in the transportation plan. Past policies and planning have been too vague in many instances.

A joint meeting of the Roads and Transit panel seems essential to get this overall transportation viewpoint.

We should argue for a strong provincial statement on urban transportation, including modal splits, and transit will come out ahead.

5. A member who also provides rural services for the disabled without municipal financial support indicated that local rural councils will never take full responsibility for local transportation needs of the disabled, so long as there remains a multitude of funding programs from the Province.
6. Municipal politicians will support unconditional grants. They may accept transportation grants tied to roads or transit. While the province is very pro transit, this is not yet sufficiently evident in medium and small municipalities. This indicates the province ought to have different policies for different levels of population.
7. Apart from the funding issue, there are opportunities for provincial-municipal disentanglement. An example is the long and expensive provincial audit of municipal transit programs. Such audits are not required, particularly in the larger centres.

The issue of "relationships" is barely addressed in the current list of options.

8. In answer to a question from the audience, Rudi Wycliffe advised the audience to budget for '93 on the status quo basis, until further notice.



A. Cormier, CAE
Executive Director

AC/il
attach.

Document 1

DISENTANGLEMENT

INITIAL (LONG) LIST OF URBAN TRANSIT OPTIONS

Under consideration as of July 16, 1992

A. STATUS QUO

No changes to current funding model and relationship.

Action taken by the Panel - retained for further consideration.

B. MAINTAIN EXISTING R/C TARGET RATIOS AND TRANSIT CAPITAL FUNDING AT 75%. REVISE THEORETICAL NET OPERATING COST TO BE SHARED 75% BY THE MUNICIPALITIES AND 25% BY THE PROVINCE

No other changes. No change to funding of transit for the disabled.

Action taken by the Panel - retained for further consideration.

C. MAINTAIN EXISTING R/C RATIOS AND PROVINCIAL/MUNICIPAL/USER SHARE OF OPERATING COSTS. CHANGE CAPITAL FUNDING POLICY TO 50% MUNICIPAL AND 50% PROVINCIAL.

No other changes. No change to funding of transit for the disabled.

Action taken by the Panel - retained for further consideration.

P.S. Sub options may be introduced to consider provincial subsidies for capital budgets; such as: 50% for replacement capital, 75% for expansion capital, 90% or 100% for capital purchases meeting specific provincial objectives or demonstration projects.

D. INTEGRATE FUNDING FORMULAE FOR CONVENTIONAL TRANSIT AND TRANSIT FOR THE DISABLED. RETAIN TOTAL FUNDING DOLLARS AS CURRENTLY EXISTS.

Action taken by the Panel - rejected from further consideration.

E. PROVINCIAL TRANSIT RELATED STANDARDS ESTABLISHED IN "CODE" (legislation or regulation) LEGALLY REQUIRING MUNICIPAL COMPLIANCE WITHOUT PROVINCIAL SUBSIDY. (standards could include safety and vehicle specifications such as accessibility features)

Action taken by the Panel - rejected from further consideration.

F. NO DIRECT PROVINCIAL CONDITIONAL FUNDING FOR CONVENTIONAL TRANSIT, EXCEPT FOR DEMONSTRATION PROJECTS, CROSS BOUNDARY SERVICES - CONTINUED FUNDING FOR TRANSIT FOR THE DISABLED

Action taken by the Panel - rejected from further consideration.

G. PROVINCIAL FUNDING OF 100% OF NET OPERATING COSTS BASED ON EXISTING R/C RATIO TARGETS. CONDITIONAL ON MUNICIPALITIES FUNDING 100% OF CAPITAL COSTS.

Action taken by the Panel - rejected from further consideration.

H. CONTINUED FUNDING OF OPERATING COSTS BASED ON EXISTING R/C RATIO TARGETS AND CURRENT PROVINCIAL/MUNICIPAL/USER SHARES - CONDITIONAL ON MUNICIPALITIES FUNDING 100% OF CAPITAL COSTS

Action taken by the panel - rejected from further consideration.

I. CONTINUED FUNDING OF CAPITAL COSTS BY PROVINCE AT 75% - MUNICIPALITIES ASSUME 100% OF NET OPERATING COSTS

Action taken by the Panel - rejected from further consideration.

J. PROVINCE ASSUMES 100% OF CAPITAL COSTS - MUNICIPALITIES ASSUME 100% OF NET OPERATING COSTS

Action taken by the Panel - rejected from further consideration.

K. PROVINCE PROVIDES A PER CAPITA BLOCK GRANT FOR TRANSIT OPERATING AND CAPITAL EXPENSES - MUNICIPALITIES DECIDE WHETHER TO SPEND IT ON CAPITAL OR ON OPERATING EXPENSES

Action taken by the panel - rejected from further consideration.

L. PROVINCE PROVIDES A PER CAPITA BLOCK GRANT FOR MUNICIPAL TRANSPORTATION - MUNICIPALITIES DECIDE WHETHER TO USE ON ROADS OR TRANSIT

Action taken by the Panel - rejected from further consideration.

M. MUNICIPALITIES IN THE GO TRANSIT SERVICE AREA CONTRIBUTE TO OPERATING EXPENSES - BASED ON EXISTING R/C RATIOS FOR URBAN TRANSIT. ALSO CAPITAL COSTS ARE BASED ON EXISTING 25% MUNICIPAL 75% PROVINCIAL FORMULA. ASSIGNMENT OF COSTS TO MUNICIPALITIES WOULD BE BASED ON ORIGIN-DESTINATION SURVEYS OR OTHER ACCEPTABLE BASIS.

Action taken by the panel - acknowledgement that the Office for the Greater Toronto Area is currently examining options along these lines.

Also see Option S.

N. RATIONALIZE URBAN TRANSIT AND SCHOOL BUSING SERVICES IN URBAN TRANSIT SERVICE AREAS. I.E. WHERE URBAN TRANSIT SERVICES EXIST, ELIMINATE PROVINCIAL GRANTS FOR SCHOOL BUSING OF STUDENTS FROM JUNIOR HIGH AND UP.

Action taken by the panel - considered a fertile area for maximizing savings to the taxpayer. Acknowledged that the Ministries of Transportation and Education have already launched such a study.

O. PROVINCE TO INVESTIGATE NEW SOURCES OF REVENUES FOR URBAN TRANSIT (other than current municipal and provincial sources)

Action taken by the panel - decided that this is not really an option per se, but the final report should include a statement that such an approach could apply with several options. The Fair Tax Commission is generally examining such options.

P. REVISE THE TRANSIT PROVINCIAL FUNDING MODEL TO COMBINE GRANTS FOR OPERATING AND CAPITAL COSTS

Action taken by the Panel - rejected from further consideration as not being substantially different from options already identified.

Q. BLENDED SUBSIDY FOR OPERATING AND CAPITAL COSTS AND A REVIEW OF EXISTING R/C RATIOS

Action taken by the Panel - rejected from further consideration.

R. BLENDED SUBSIDY FOR OPERATING ASSISTANCE AND REPLACEMENT CAPITAL - CURRENT 25% MUNICIPAL AND 75% PROVINCIAL FOR EXPANSION CAPITAL

Action taken by the Panel - rejected from further consideration.

S. ESTABLISH A REGIONAL TRANSIT AUTHORITY TO OVERSEE, COORDINATE, PLAN AND MANAGE TRANSIT OPERATIONS IN THE GTA

Action taken by the Panel - decided that this is not really a Disentanglement option. The panel also acknowledged that the Office of the Greater Toronto Area is examining such options.

Document 2

**DISENTANGLEMENT
SHORT LIST OF TRANSIT OPTIONS**

July 16, 1992

A. MAINTAIN EXISTING FUNDING MODEL AND RELATIONSHIP (STATUS QUO) INCLUDING GO TRANSIT

Description

- Continued legislative authority
- Continued development of policy guidelines and interpretation
- Continued joint roles in planning area
- Municipalities continue to deliver service and decide on service policies
- Maintain existing shared funding role between province, municipalities and the users

Evaluation Comments

- The existing relationship works well and is understood/supported by all participating municipalities. Weakness in interface between inter urban and urban services.
- The Province has an interest in province wide mobility, land use, conservation of resources, environmental protection and industrial sector promotion.

B. MODIFICATIONS TO STATUS QUO

B-1 REVISE NET OPERATING COST SHARE FOR CONVENTIONAL TRANSIT BETWEEN THE PROVINCE AND MUNICIPALITIES (75% MUNICIPAL AND 25% PROVINCIAL)

Description

- No legislative changes required
- Planning roles remain as existing
- Municipalities continue to deliver services and decide on service policies
- No change to conventional capital funding or to funding of transit for the disabled

Evaluation Comments

- The Province has an interest in province wide mobility, land use planning, conservation of resources, environmental protection and industrial sector promotion. This option infers a reduced provincial interest, as compared to Option A.
- An increase of municipal financial obligation by 50% will jeopardize levels of service
- Likely to reduce jobs in transit operations

B-2 REVISE CONVENTIONAL CAPITAL FUNDING TO MUNICIPALITIES 50% AND PROVINCE 50%

Description

- No legislative changes required
- Revision to appropriate policy guidelines
- Planning roles remain as existing
- Municipalities continue to deliver services and decide on service policies
- Maintain existing funding model for net operating cost

Evaluation Comments

- The Province has an interest in province wide mobility, land use, conservation of resources and the protection of the environment. This option infers a reduced level of provincial interest as compared to Option A.
- While on the surface a 50/50 share of capital funding appears to be equitable, the revenue generating capabilities of the province and the municipalities are not equal. This option is, therefore, not equitable. This option reduces provincial influence in the planning of transit capital projects.
- This option will result in fewer jobs in the Transit Supply Sector

APPENDIX 2

PRESENTATIONS

TO THE

PANEL

PAULA DUNNING
President



MIKE BENSON
Executive Director

ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

439 UNIVERSITY AVENUE, 18th FLOOR, TORONTO, ONTARIO M5G 1Y8
TELEPHONE: (416) 340-2540 • FAX: (416) 340-7571

November 18, 1992

The Honourable David Cooke
Minister of Municipal Affairs
Chair, Steering Committee on Disentanglement
Provincial-Local Relations Secretariat
777 Bay Street
Toronto, Ontario M5G 2E5

Dear Minister:

The Ontario Public School Boards' Association is pleased to have the opportunity to review the draft reports of the Expert Panel on Property Assessment Services and the Expert Panel on Transit Services, prior to discussion by the Steering Committee on Provincial-Local Relations. The Association has reviewed both reports and has particular concerns with the recommendations of the Expert Panel on Property Assessment Services.

Earlier this year, OPSBA approached the Provincial-Local Relations Secretariat and the Minister of Education, noting that the disentanglement process did not include representation from school boards. We were assured at that time that the discussions would not impact school boards or school finance. Time however has confirmed our belief that it is difficult to address provincial-municipal roles and responsibilities and finance in isolation of education finance. Both municipalities and school boards share a common revenue base and constituency, the community.

Public school boards would not support the proposals of the report in their present form. Our concerns are contained in the attached response. We hope that the Steering Committee takes the comments of public school boards into consideration prior to decision-making.

Yours truly,

Paula Dunning
President

PD/ba

cc: The Honourable Tony Silipo, Minister of Education
Mr. Michael Jordan, Assistant Deputy Minister, Provincial-Local Relations Secretariat
Mr. Robert Mitton, Deputy Minister, Ministry of Education
Mr. Joe Mavrinac, Mayor, Town of Kirkland Lake, President, AMO

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Response to Draft Transit Panel Report by Ontario Public School Boards' Association:

II. EXPERT TRANSIT PANEL: "COOPERATION AND COORDINATION BETWEEN MUNICIPAL TRANSIT AND SCHOOL TRANSPORTATION"

The Transit Panel report states that there may be opportunities for "greater efficiency, effectiveness and cost-savings amongst providers of both public transportation and school bus services". -- "The specific area of interest of the panel was the possibility of greater use of public transit by students in grade 5 and above."

OPSBA Comment

The Association in its report to the government, Position Paper #3: Proposals for a New Education Funding System stated:

"In response to financial strains on the education system and the mounting public pressure for less duplication, OPSBA recommends that school boards be encouraged through financial incentives to develop alternative transportation delivery models. New and cost-effective ways to bus students that must be explored are:

- joint transportation service of coterminous school boards
- cooperative arrangements with municipalities for providing transportation for some students (in area that have municipal transit, and for older students
- regional transit authorities for: school busing, municipal transit, handicapped transportation, etc."

The Association also suggested that specialized transportation for school could be coordinated with municipal specialized transit to achieve cost-efficiencies.

**Submission
to the
DISENTANGLEMENT TRANSIT EXPERT PANEL**

*Prepared by
the Ontario Motor Coach Association*

August 1992

INTRODUCTION

Founded in 1930, the Ontario Motor Coach Association (OMCA) is a trade association representing the inter-city bus industry at the provincial level. On behalf of its over 1000 members, including 75 motor coach firms and 80 travel and tour companies, the OMCA works together with all levels of government to advance industry concerns and publicize the contributions made by the inter-city motor coach business in travel and tourism, in addition to providing a full range of trade-related services to member firms.

OMCA strongly believes that the government at all levels is not obligated to provide a transportation service, but to see that transportation services are provided. In this regard, OMCA sees the purpose of a passenger transportation system as providing transportation to meet the needs of people, not to meet the needs of transportation enterprises' management and employees. With this in mind, government should pursue policies that foster economic growth and produce the greatest value for tax money while ensuring that the quality and safety of public services remain high.

Ultimately, the Ontario government's current initiative to unravel the provincial-municipal transit web, referred to as "disentanglement", will place new pressures on municipalities to find alternative funding mechanisms to maintain and improve transit services. However, should the province decide to preserve the status quo, alternative fiscal arrangements must be established to ensure an appropriate level of Ontario's transit services. As outlined in *Fax-Com: Edition 1, Volume 1*, the Disentanglement Transit Expert Panel will examine a number of items, in this regard, including: standards, policy, delivery, funding and transit revenue generating opportunities.

As far as options go, recent American and Canadian examples show that competitive bidding of transit services protects existing workers and is a workable, low cost and successful solution to improve and increase transit service delivery, as well as relieve the financial constraints municipalities and taxpayers will likely face once the transit knot is undone. To this end, it is the intent of this submission to explain the practical gains of competitive bidding to assist Panel members with their deliberations on disentanglement.

CURRENT ENVIRONMENT

Public Transit is a Key Public Service

OMCA understands and appreciates the critical role public transit plays in Ontario's urban communities. Without a doubt, modern urban life would be economic and social chaos without it. Indeed, nothing better demonstrates Ontario's dependence on public transit than a public transit strike. In larger municipalities, the resulting traffic congestion turns the ordinary routines of daily life into nightmarish struggles.

Public Funding of Transit Service Does Not Require Public Operation of Transit Service

Nonetheless, OMCA is concerned that provincial transit policy makers and local government officials (including transit managers) have assumed that, because transit service is so crucial, it must be performed by municipally owned and operated transit authorities. However, the fact that transit service must be subsidized, does not mean that it must automatically be performed by a public entity. Indeed, there are examples in Ontario that such is not the case.

It should be of no surprise that private operators are and want to be involved in public transit service. After all, transit is simply another form of scheduled passenger transportation. It requires vehicles, drivers, related support services and the ability to operate in conformity with a published schedule. This is precisely what the Association's members do and do well everyday throughout Ontario. In fact, several OMCA members currently operate public transit systems under contract to local municipalities. Motor coach operators are transportation oriented companies that range from huge multi-nationals to local family run companies, and are quite capable of managing large, medium or small municipal transit authorities.

The following list outlines some private companies prepared to assist transit authorities with municipal operations; as long as the contract's time frame ensures the private operator a fair return on the capital investment. It is interesting to note that some operators' fleets are larger than most of Ontario's transit authorities. (The approximate number of vehicles is outlined after the company's name.) There are many more private companies in Ontario, not listed below, currently operating or are prepared to operate municipal transit services.

Laidlaw (21,000)
Charterways (5,100)
Pacific Western Transportation (400)
Voyageur (155)
Greyhound Lines of Canada (400)
PMCL (421)
Chatham Coach (100)
Trentway-Wagar (250)
Carlton Bus Lines (175)
Can-Ar Coach (50)

Competition has a Role in Controlling Transit Costs

The very importance of public transit service makes it all the more vital that it is operated as economically and cost effectively as possible. The public may not expect transit fares to fully cover the costs of transit operations, but that does not mean that the public has given local transit authorities a license to spend tax dollars without restraint.

School boards contract out the operation of bus services and have complete control over the route, number of passengers, timing, etc. The operation of some 96 motor coaches on a contract to one of the major tarsand projects in Alberta is contracted to the private sector, yet, the project management completely controls the service provided. It can be argued that a transit authority can have more control over a contracted service if the contract is written properly.

The fact that it is contracted out and that the contractor can lose the service if he or she does not provide good service is incentive enough for service improvement if, in fact, it falls short of expectations.

The principal policy objective of increasing private sector participation in public transit is to stimulate the same pressures of a competitive market. The ultimate measure of the success will likely be a reduction in the required level of provincial and municipal subsidy for transit, or an increase in the level of transit service for the same level of subsidy without lowering the quality of service to the public.

A second and equally important benefit of adding competition to public transit operations is that a competitive environment will pressure the transit provider to control costs and, thereby, reduce the rate at which costs (and subsidy payments) increase.

OMCA does not believe that the use of private sector bus companies to inject needed competition into the operation of public transit systems should be adopted because of a blind faith in the efficacy of private enterprise. To the contrary, OMCA expects the government to adopt effective measures ensuring that private sector participation in public transit achieves identifiable objectives, such as reducing the cost of providing transit service.

At the heart of OMCA's policy position is the firm conviction that properly applying competitive forces to public transit service is not only appropriate, but essential to maximize the benefit from public transit expenditures. This is not to say that the determination of public transit service levels should be set by free market forces. It is to say, however, that when public transit service levels are set by elected officials, the cost of providing that level of service should be determined, whenever possible, in a competitive environment.

In a majority of cases there is only limited pressure on public transit monopolies to meet competition for transit customers. OMCA believes that, especially in the performance of an essential service such as public transit, existing government-based monopolies may tend to insulate transit authorities from performing efficiently and, because of the strings attached to subsidies, brings political influence to major decisions. (Market-driven monopolies such as Voyageur Colonial Ltd.'s Toronto-Ottawa line-run do not share the same benefits.) Also, transit authorities must seek tenders to purchase new buses and equipment. With this in mind, one may ask, why should transit authorities' operations be any different?

Competition is accepted in virtually every aspect of our political and economic life as the best mechanism to foster strong and effective performance. How would the public respond if the provincial government or a municipality for that matter were to purchase millions of dollars worth of supplies without seeking competitive bids from available suppliers? Do we not expect elected officials to protect the public treasury (not to mention the taxpayer's money) by trying to do for itself what every citizen does for his or herself, namely, try to get the best possible deal before spending its money? Should transit expenditures not be carried out in the same frugal and fiscally prudent manner?

Government-based monopolies are suspect for the very reasons that healthy competition is preferred. After all, the hallmark of monopoly is the absence of other service or price options and, hence, the absence of pressure to improve performance and control costs. Public transit is subject to the same deteriorating influences that infect other monopolies.

In the absence of competition, there is limited fiscal discipline over capital spending, wages, maintenance costs, or any other category of operating expense. Managers of publicly owned transit systems simply do not have to serve the same unforgiving master that private sector managers do: the proverbial bottom line. Having to meet that bottom line is what forces private sector managers to stay on top of their costs and to seek out new efficiencies, while maintaining one's consumer appeal.

OMCA believes that inserting competitive bidding into the process of selecting a transit service operator will help to counteract the deteriorating influences of monopolies in public transit service.

As stated earlier, OMCA does not suggest that public transit service levels should be based entirely on a competitive market model. Nor does OMCA suggest that every aspect of a public transit system should be subject to competitive bidding. In the first place, it is the responsibility of elected municipal councils to balance the level of transit service with the level of fares and the resulting municipal tax burden. In the second place, certain components of a transit system, such as the Toronto Transit Commission's network of subway routes, may not be suitable candidates for contracting out.

However, OMCA does suggest that the use of competitive bidding ensures that whatever level of public transit service is selected, the service will be performed, whenever it is possible and practical to do so, for a cost determined in an open, competitive market. Most municipal governments, as a matter of policy, require purchases above a relatively modest dollar level to be put out to competitive bids. Competitive bidding is the same process applied to the provision of transit service. The purpose of using a competitive process at regular intervals is to keep pressure on the providers' costs, and maintain and improve the quality of consumer service to the community. Such a process can only benefit public transit service.

The idea of using privately owned bus companies to perform public transit service in a municipality is not new to Ontario. Today, 43% of Ontario's 60 public transit systems are now operated by private bus companies. In each of these cases, the local public transit authority sets the transit service levels and fares and a contracted private carrier provides the service. MOT's Provincial Transit Manual outlines criteria for municipal transit authorities to use when structuring transit service bid solicitations and contracts.

CURRENT REGULATORY ENVIRONMENT

The regulatory system of public vehicle operations in Ontario has been in place for nearly half a century, with little variation. Matters of safety, including hours of work, are regulated under the Highway Traffic Act. This legislation applies to all industry bus owners and operators (i.e.: transit and intercity), and prescribes standards and penalties for violations of those standards. The ultimate sanction for repeated violations of the standards is the suspension or revocation of registration plates.

The system of entry control regulation for Ontario's intra-provincial private intercity motor coach industry operations is found in the Public Vehicles Act (PVA). By operation of the federal Motor Vehicle Transport Act, 1987, the content of the PVA effectively applies to extra-provincial operations as well. Provincial entities such as GO Transit falls within its own statute, and is, thus, exempt from the Public Vehicles Act.

Under the Municipal Act, municipalities can obtain a full monopoly over transit services within their own boundaries, and, as stated under section 2-3 of the Ontario government's Transit Manual, eligible operating expenses exclude the vehicle cost if the private sector purchases the equipment. Under the current provincial-municipal transit funding structure, local councillors react to public demands for new bus services. In this regard, rather than finding the most cost-effective means (i.e.: competitive bidding) to implement new bus services, local politicians make their decisions based on the 75% provincial funding they will automatically receive if they decide the municipality will operate the service.

SERVICE QUALITY

Recognizing that the private sector safely operates 250 passenger vehicles daily in the contract transit service sector and moves 17,000 school buses in a system of competitive bidding, service will not decline (i.e.: Trentway-Wagar/Amalgamated Transit Union - the union representing the Trentway workers - received an award from the Ontario Urban Transit Association for the service quality improvement of Whitby transit.)

Simply because a service is provided by a government agency does not necessarily mean that it is better quality. There have been newspaper articles, letters to the editor and public enquiries that have pointed out that some services provided by government agencies are of poor quality.

Virtually all of Ontario's school bus industry is operated by the private sector and provides excellent service. The intercity motor coach industry offers excellent motor coach tour service throughout North America with services that far exceed the services provided by government operated transit services, efficiently generating revenue solely from the fare box. However, government agencies that insist on taking the lowest bid in a tender regardless of qualifications or quality specifications within the tender may attract companies that provide a service based on price alone. It is only then that service will likely deteriorate because of this contracting policy, not because it is private versus public.

Some have argued that once a transit authority has increased its capacity to a certain level, it must be operated publicly; not by the private carrier. One of the largest, if not the largest North American operation that runs streetcars, mono rail system, a passenger train, passenger ferry, service for the disabled, and transit buses is a private sector company which is continually being asked for advice by municipal transit authorities.

As outlined in the 1989 Transmode/Ontario Ministry of Transportation study entitled, Participation of Private Bus Companies in Public Transit Services, "Although there is limited evidence of deterioration in service quality as a result of privatization in some cases, the US experience generally shows that through proper contractual agreements, there should be no particular problems in guaranteeing adequate quality of service under private operation. In fact, through incentive schemes under which the private contractor has a stake in service revenues, there is some reason to believe that quality of service can actually be improved. The most important contractual condition for guaranteeing adequate service quality appears to lie in the use of liquidated damages as a means of attracting the contractor's attention to service weaknesses.

IMPACT ON WORKERS

Developing a competitive bidding system must consider the best value for taxpayers' money. Alongside this consideration, the workers' welfare must also be examined. For example, rather than decreasing needed service and laying off staff, London transit could have maintained and improved upon necessary eliminated service by contracting out unprofitable routes to the private sector.

Many, if not most companies in competitively tendered municipal transit service are already unionized, thus, competitive bidding should not be perceived as "anti-union". Over 80 percent of OMCA's operator members' drivers are represented by unions.

COMPETITIVE BIDDING EXAMPLES

Listed below are cost-effective Canadian and American examples of competitive bidding.

1. Markham and Mississauga

In Mississauga, the 1989 operating cost per revenue vehicle hour for their transit service was \$63.46. In January 1990, Mississauga contracted out one specific route within Mississauga for an operating cost of \$35 per revenue vehicle hour. Furthermore, this contracted service included buses purchased exclusively by the private sector, at no cost to the municipality or province. (Metro Toronto's operating cost per revenue vehicle hour is \$65.52).

Similarly, Markham, which borders Metro Toronto, had an operating cost of \$55.81. Markham's service is completely contracted out to both the private and public sectors. (TTC provides north-south routes to Markham. Despite the TTC's higher operating cost per revenue vehicle hour, Markham Transit's average cost remains relatively low).

2. Actual Cost Comparison of Metro Toronto's Wheel Trans 1987 to 1990

Note: WheelTrans Services was privately operated from its inception as a pilot project in 1975 to 1987. Latest statistics available are from 1990.

Source: Ministry of Transportation "Transit for Physically Disabled Persons: Fact Book 1987 and 1990 Editions.

	<u>1987</u>	<u>1990*</u>	<u>% Increase</u>
Operating Costs	\$ 14.1 mil	\$ 31.2 mil	121%
Total Number One-way trips	553,795	799,328	44%
Number of vehicles	129	286	122%
Number of employees			
- operators	200	231	15%
- office	59	94	59%
- maintenance	12	53	341%
- administration	10	19	90%
Operator wages**	\$ 11.37	\$ 18.34	61%
Efficiency			
- cost/kilometre	\$ 2.10	\$ 3.17	-51%
Utilization			
- kilometres/vehicle	52,160	31,507	-39%

* Excludes all capital costs

** Same union and same local.

3. American Experience (see Appendix 1 for further background on the following studies)

(a) Denver RTD Privatization Performance Audit Update: July 1990-1991

As outlined in the aforementioned study, "On a short-term, incremental basis, derived from actual costs, privatization resulted in a savings of \$2.5 million, or 12.5 percent. On a long-term, fully-allocated basis, privatization was estimated to result in a savings of 25.8 percent, without depreciation and underutilized fixed assets, or 31.0 percent, with depreciation and underutilized assets."

(b) Bus Service Continuation Project, Los Angeles, California

As stated in Private Sector Briefs: Federal Transit Administration, Office of Private Sector Initiatives, Volume 4, Number 6, "the Price Waterhouse study [which evaluated the cost and service of Los Angeles' Bus Service Continuation Project] has found that Bus Service Continuation Project (BSCP) contractors provided more cost efficient service and that service quality was better or at

least equal to that provided by the Southern California Rapid Transit District (SCRTD).

"The study has found that the fully-allocated cost of all BSCP routes was 60 percent less than the cost estimated for SCRTD operation of these routes. The cost per revenue hour for BSCP operated services was \$61 as opposed to \$154 for services operated by the SCRTD. The three-year trend in cost per revenue hour indicates that the cost of contractor-provided services declined at a greater rate than SCRTD's costs have increased. Between FY88 and FY90, overall BSCP costs declined from \$79.32 per hour to \$60.91 per hour, a decrease of about 23 percent. During the same period, SCRTD's cost per revenue hour for BSCP services would have increased to \$153.62, as estimated by the Price Waterhouse study.

"Since its inception, the full costs of BSCP services have totalled approximately \$11.6 million. The full costs of SCRTD operation of these services over the same period would have totalled over \$24 million. Ridership on these sixteen lines, which were cancelled by SCRTD due to low productivity, has increased by 150 percent. Additionally, service has been added on all ten commuter lines. The largest number of complaints are now requests for more service."

- (c) Evaluation of the Foothill Transit Zone, Los Angeles County Transportation Commission

According to information outlined in the Foothill Transit Zone Evaluation, the estimated FY90 SCRTD cost per vehicle service hour was \$91.01, compared to \$51.43 actual Foothill performance cost per vehicle service hour; a difference of 43%. Also, the estimated FY90 SCRTD commission subsidy per passenger was \$1.73, compared to \$1.01 actual Foothill performance; a difference of 42%.

4. School Bus Operators' Association (SBOA) Study

According to a recent 1992 Ernst & Young/SBOA Study, comparing student transportation via school bus operators and municipal transit systems, Transit Windsor's direct operating costs were 65% higher than private operator costs, and Ontario's Transportation Ministry (MTO) grants to Transit Windsor lowered the cost difference to an amount 32% higher than private operator cost.

The study stated that "...excess buses required by Transit Windsor to support the special school runs creates a potential opportunity for total cash savings of at least \$3,520,000 over the next 3 years through deferral of capital acquisitions if the special school runs are foregone. MTO's portion of this cash saving approximates \$2,640,000. The cash savings beyond 3 years would of course be less...

"If Transit Windsor is representative of other jurisdictions, the total savings available in Ontario through deferral of capital acquisitions are substantial. These cash flow savings could conceivably be achieved by MTO if they encourage the use of private school bus operators over transit buses on special school runs...

"It is clear that the grant process provided by MTO to the municipal transit authorities has created a situation where local transit decisions on expansion to dedicated school bus service may be supportable at local levels. However, this clearly results in a great overall cost to the taxpayers of Ontario. Amendments to the grant process will likely provide substantial opportunities to reduce net MTO funding over the next several years."

CONCLUSION

With many new constraints facing local governments, following the conclusion of the "disentanglement" exercise, municipalities will be forced to implement new cost-effective measures such as competitive bidding to maintain and improve the quality of transit service. Past and present examples in the United States and Canada have shown that using the private sector to provide public transit will ease the municipalities' fiscal pressure to provide necessary transit services. Unfortunately, the stigma attached to "competitive bidding" has hindered this viable option from proving its intended goal - cost effectiveness and improved productivity.

Private-public transit partnerships will not create less jobs. In fact, more jobs will be created as the need to capitalize on the gains achieved through competitive bidding grows. With this in mind, rather than eliminate cost ineffective transit services and laying off staff, transit routes can be contracted to the private sector at little or no cost to local governments, based on priorities set by the municipality.

The OMCA believes that the provincial government cannot simply cut the financial strings, leaving municipalities and transit authorities alike to face the fiscal crunch of having to provide the economically and socially needed transit services. In this regard, it is our hope that we have provided the Disentanglement Transit Expert Panel a means to an end, "competitive bidding", which will ensure the vibrancy and enhancement of Ontario's public transit services, whether it is provided by the province or municipality.

Appendix 1

*Focused experience
for measurable results*

Manufacturing and
Technology Industries

Financial Institutions

Health Care

Government Services

Insurance

Real Estate and Hospitality

Airports

Retail and Wholesale

Energy and Utilities

Corporate Transactions

Technology and Operations

Compensation and Benefits

**Regional Transportation District
Denver, Colorado**

**DENVER RTD PRIVATIZATION
PERFORMANCE AUDIT UPDATE:
JULY 1990 – JUNE 1991**

**Final Report
November 1, 1991**

prepared by
KPMG Peat Marwick
in association with
Mundle & Associates, Inc.
Transportation Support Group, Inc.

ANALYSIS OF THE CONTRACTORS' ACTUAL COSTS AND PROFITABILITY

This analysis was based on actual costs as disclosed in the contractors' financial statements. Profit was computed as revenues less expenses, not profit on equity capital. Combined, the three contractors earned a profit of 2.4 percent during 1990/1991, compared to a loss of 2.1 percent in 1989/1990.

While profitability remains low to date, each contractor is an operational unit of larger corporations that have and may continue to fund relatively small local operating losses and/or accept relatively low profitability in individual operating units. Two of the contractors are actively pursuing other transit-related businesses in the Denver area. The privatized RTD services may effectively be a "loss-leader" which provided these contractors a "foot in the door" in the Denver market place.

Without knowledge of the overall business strategy of each contractor, which is subject to change, the financial performance of individual operating units of larger businesses may not give any indication of the future price strategy of each contractor.

The small overall profitability experienced by the current contractors and uncertainty regarding economic conditions may lead to higher proposed prices for future contracted services, if any. Such higher prices may come from both the current contractors, who may wish to operate their Denver projects more profitably, or from new contractors, who may wish to minimize risk given the limited profitability of the current contractors.

SOURCE OF SAVINGS RESULTING FROM PRIVATIZATION

The contractors' actual operating costs were 45.0 percent lower than RTD's allocated actual costs. With capital costs included, the contractors' costs were 41.9 percent lower than RTD's.

In terms of operating costs alone, more than half of the savings in actual costs was due to the lower wages and fringe benefits paid by the contractors. More than 38 percent of the difference in operating costs resulted from lower bus operator wages and fringe benefits; nearly 14 percent of the difference resulted from lower mechanic and servicer & cleaner/utility worker wages and fringe benefits.

With capital costs included, bus operator and maintenance worker wages and fringe benefits accounted for more than 48 percent of the difference between RTD's and the contractors' cost.

The average cost of bus operator wages and fringe benefits per revenue hour of service was \$24.44 for RTD and \$14.20 for the contractors' (\$10.24 per hour or 41.9 percent lower than RTD).

SAFETY AND QUALITY OF SERVICE

Safety

- **Bodily injury accidents:** In terms of accidents per 100,000 passengers, the contractors performed better than RTD on local/limited radials and worse on local/limited non-radials, and the same on express routes.
- **Property damage accidents:** In terms of accidents per 100,000

between mechanical roadcalls for local/limited radial and non-radial routes suggests that higher staffing could improve maintenance performance. The contractors' improved miles between roadcalls on express routes is encouraging, however.

Lower mechanic staffing may be due to the volume of corrective maintenance, component rebuild, and body/paint work that is contracted out. However, inspection and maintenance staffing levels at similarly-sized privately operated transit properties were significantly higher.

Generally, smaller privately operated transit systems have lower staffing levels because of the cost-effectiveness of contracting out some maintenance work. This was particularly true in the case of RTD's contractors who may have limited their investment in in-house equipment because of the uncertainty of the duration of their contracts. The initial three-year base term of the contracts is a relatively short duration and may not be sufficient to justify the investment in some types of maintenance equipment.

Vehicle Inspections

Eleven of the 21 contractors' buses that were inspected were used, or were planned to be used, in transit service with safety-related unsatisfactory conditions: marginal or smooth tire treads, passenger doors opening and closing fast, long brakes, and cracked windshield glass. Based on the overall number of unsatisfactory conditions observed, the contractors' preventative maintenance inspections need to be more diligent and thorough.

Maintenance Facility Inspections

Lack of measured filling systems for engine oil and transmission fluid sometimes lead to under/overfill conditions. Some buses were stored in unpaved parking areas; this contributed to dusty conditions on some buses.

All contractors were utilizing the RTD Maintenance Reporting System forms as required for leased buses. The contractors' maintenance tools and service equipment were adequate.

BUS OPERATOR WAGES AND TURNOVER

The contractors' wage rates and average wage per hour actually paid were lower than RTD's. Higher bus operator turnover occurred at the contractors with the lowest wages.

No relationship was found between safety and quality of service and higher bus operator turnover. In most measures, the contractors performed as well or better than RTD despite lower wages. One exception was maintenance reliability on local/limited radial and non-radial routes, which may be due more to leaner mechanic staffing levels than bus operator wages.

While the contractors' overall bus operator turnover was higher than RTD's, the contractors did not experience a significant difference in the proportion of resignations and terminations for cause as a result of lower wages.

ACCIDENT REPORTING ACCURACY

There was no indication that the contractors were systematically withholding accident reports from RTD.

EXHIBIT 3**FULLY-ALLOCATED COST COMPARISON OF
FISCAL IMPACTS OF RTD DIRECTLY OPERATED
VERSUS CONTRACTED TRANSIT SERVICES
(\$ MILLIONS)**

	Ref	Jul 1990- Jun 1991	Prior Projections	
			1990	1991
			1	1
FULLY-ALLOCATED COST HAD				
RTD DIRECTLY OPERATED PRIVATIZED SERVICES				
Operating Cost				
Category 1 (Administration)	2	\$2.760	\$2.271	\$2.462
Category 2 (Operations)	2	\$17.193	\$16.697	\$18.132
Total Operating Cost	2	\$19.953	\$18.968	\$20.594
Depreciation	2	\$4.087	\$2.417	\$2.574
TOTAL		\$24.040	\$21.385	\$23.168
COSTS RESULTING FROM RTD				
CONTRACTING SERVICES				
Contractor Invoices	3	\$12.412	\$11.965	\$12.790
Retained Fare Revenues	4	\$1.730	\$1.635	\$1.767
Gross Contractor Cost		\$14.142	\$13.600	\$14.557
Less Lease Income	5	(\$1.334)	(\$1.432)	(\$1.432)
RTD Labor Costs Charged to Privatization				
Recurring				
Contracts	6	\$0.029		
Contract Service Manager	6	\$0.063		
Time Charged to Privatization	1		\$0.969	\$1.016
Amortized Non-Recurring	1	\$0.114	\$0.114	\$0.114
Amortized Consultant Costs	1	\$0.093	\$0.093	\$0.093
Amortized Cost of Voluntary Separation Prog	7	\$0.483		
Excess Capacity				
Underutilized Hourly Labor				
Operators	8,1	\$0.400	\$1.667	
Mechanics	8,1	\$0.502	\$1.060	\$0.949
Servicers & Cleaners	8,1	\$0.317	\$0.317	\$0.317
Underutilized Fixed Assets	9,1	\$1.776	\$1.578	\$1.638
TOTAL				
Without Underutilized Fixed Assets		\$14.809	\$16.388	\$15.614
With Underutilized Fixed Assets		\$16.585	\$17.966	\$17.252
SAVINGS (COSTS) RESULTING FROM PRIVATIZATION				
Without Depreciation & Underutilized Fixed Assets		\$5.144	\$2.580	\$4.980
Percent of RTD Fully-Allocated Cost w/o Depreciation		25.78%	13.60%	24.18%
With Depreciation & Underutilized Fixed Assets		\$7.455	\$3.419	\$5.916
Percent of RTD Fully-Allocated Cost w/Depreciation		31.01%	15.99%	25.54%

References:

- 1) KPMG Peat Marwick, Revised Final Report, December 24, 1990, Exhibit IV-26.
1990 and 1991 projections for comparison only.
- 2) Derived from cost allocation model calibrated on actual costs from 7/1/90 to 6/30/91.
- 3) Based on actual payments to contractors.
- 4) Based on electronic farebox data and contractor reports.
- 5) Based on lease payments for RTD buses and the Longmont facility.
- 6) Based on salaries and fringe benefits for 2 RTD management positions.
- 7) Based on severance benefits of RTD Voluntary Separation Program (omits benefits paid to employees in retained and excluded functions).
- 8) Based on actual attrition experience.
- 9) Based on 1991 non-vehicle depreciation.



PRIVATE SECTOR BRIEFS



Federal Transit Administration - Office of Private Sector Initiatives

Volume 4, Number 6

Competitive Contracting

July 1992

Bus Service Continuation Project

Los Angeles, California



by the Los Angeles County Transportation Commission (LACTC). The project was launched in order to permit bus service to continue on sixteen routes which were cancelled by the Southern California Rapid Transit District (SCRTD) as an economy measure.

The objective of the project was to assess the cost reduction and service improvement potential of competitively procured fixed-route bus service. LACTC served as lead agency for the project as well as the funding recipient and distributor. The City of Los Angeles contributed Section 3 funding from the Federal Transit Administration to cover 75 percent of the capital costs associated with the project. The remaining capital and operating costs were split on a 50/50 basis with the LACTC. The County portion of the project was 100 percent funded by local funds. The City and County of Los Angeles contracted for services in their respective jurisdictions.

City service began in October 1987 with two local and ten express routes, operated by Laidlaw Transit. County service began in November and December of 1987 and consisted of two local and two express routes operated by Embree/Mark IV and Laidlaw Transit, respectively. Forty buses were used to operate City service and thirty buses were required for the County's operations.

While all BSCP services are operated by private providers, SCRTD continues to provide the following services under contract:

- telephone information,
- bus stop sign production, posting and maintenance,

- schedule production and printing, and
- complaint forwarding.

Price Waterhouse was hired by LACTC to conduct a cost and service quality evaluation of the project. This evaluation was performed over a 33 month period. The cost and service quality performance evaluation compared actual contractor performance to SCRTD's likely performance--that is, as if SCRTD were still operating the BSCP service. The contractor's performance was derived directly from financial and operating records. SCRTD's performance was estimated based on its previous performance on the BSCP routes, adjusted for current system-wide trends in cost and the various measures of service quality. The Price Waterhouse study has found that BSCP contractors provided more cost efficient service and that service quality was better or at least equal to that provided by SCRTD.

The study has found that the fully-allocated cost of all BSCP routes was 60 percent less than the cost estimated for SCRTD operation of these routes. The cost per revenue hour for BSCP operated services was \$61 as opposed to \$154 for services operated by the SCRTD. The three-year trend in cost per revenue hour indicates that the cost of contractor-provided services declined at a greater rate than SCRTD's costs have increased. Between FY88 and FY90, overall BSCP costs declined from \$79.32 per hour to \$60.91 per hour, a decrease of about 23 percent. During the same period, SCRTD's cost per revenue hour for BSCP services would have increased to \$153.62, as estimated by the Price Waterhouse study (see table, next page).

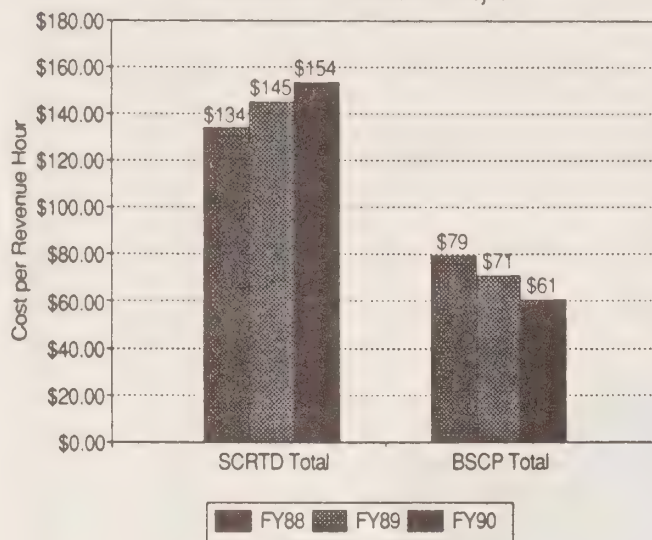
Since its inception, the full costs of BSCP services have totaled approximately \$11.6 million. The full costs of SCRTD operation of these services over the same period would have totaled over \$24 million. Ridership on these sixteen lines, which were cancelled by SCRTD due to low productivity, has increased by 150 percent. Additionally, service has been added on all ten commuter lines. The largest number of complaints are now requests for more service.

Service quality, as defined by the performance measures used

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Three-Year Comparison: Overall Costs
Bus Service Continuation Project



in this evaluation, was on balance found to be better for contracted services when compared to SCRTD's prior performance on the BSCP routes, adjusted for recent performance trends. Performance measures included in the evaluation were: miles between roadcalls, accidents per 100,000 miles, percent of pullouts cancelled or late and complaints per

100,000 riders. Interestingly, service quality improved for both BSCP contractors and SCRTD during the evaluation.

The Bus Service Continuation Project has been a success and the routes are currently being incorporated into permanent service. The City of Los Angeles has become an "included operator" thus qualifying for regional operating funds. LACTC has recently approved service expansion funds for two City routes. The County routes are being transferred to the Foothill Transit Zone (see Private Sector Brief: *The Foothill Transit Zone*, Vol. 3 No.2, July 1991.)

As the BSCP project illustrates, competitive contracting in the Los Angeles region is flourishing. All new operators in Los Angeles County including the City of Los Angeles, Foothill Transit, Santa Clarita Transit and Antelope Valley Transit, when combined, will operate in excess of 500 vehicles by the end of 1992. These operators use competitive contracting exclusively for the procurement of service. In a recent City award of four new commuter lines, three of the lines were awarded competitively to private operators and only one to SCRTD.

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***EVALUATION OF THE FOOTHILL TRANSIT
ZONE***



FOOTHILL TRANSIT

**Fiscal Year 1990
Report to
Los Angeles County Transportation Commission**

July, 1991

Prepared by

 **ERNST & YOUNG**

- Minimum of 15-25% savings in cost per vehicle service hour; or
 - Minimum of 15-25% savings in cost per passenger; or
 - Minimum of 15-25% savings in Commission subsidy per passenger.
- ☐ There is demonstrated public support for the Zone expressed through ridership, public reception, and support of local governments in the Zone.
 - ☐ The overall system impacts have not worsened. Success of this criterion shall be measured in two ways: (a) verification that the transfer agreement required in Section III.C has been implemented; and (b) the affected operator's performance as measured by the TPM program has not been significantly impacted.
 - ☐ The likelihood of continued successful operation by the Zone under the LACTC rules governing "included" transit operators.

In part, the evaluation called for the development of a database which permitted an evaluation of each of these four key factors. The fiscal audit was performed by Miranda, Strabala & Associates (MSA) under contract to Ernst & Young. Subsequently, MSA conducted the FY1989 audit of the Foothill Zone under separate contract with the Zone. All indications from the staff of MSA to Ernst & Young were that the staffs from Simpson & Simpson and the County Auditor Controller were instrumental in the successful completion of the audit.

In performing the cost comparisons, Ernst & Young was directed to utilize the cost comparison methodology described in the LACTC Transportation Zone Guidelines. A computerized financial model was developed which performs the calculations necessary to complete the cost comparisons. Inputs to the model include actual Foothill Transit Zone performance data, FY1987 SCRTD performance data as presented in the San Gabriel Valley (Foothill) Transit Zone Application, and SCRTD systemwide performance data. The actual worksheets which comprise the model are shown in Appendix A. In conducting the cost comparison according to the methodology as described in the LACTC Transportation Zone Guidelines, Ernst & Young independently and objectively ensured that the data used were accurately compiled and that the comparisons were completed based on the guidelines as they were presented.

The Results:

Demonstrated Cost Savings

As can be seen in Exhibit E-1, each of the four cost measures around which the evaluation of the economic value of the Zone was measured exceeds the requisite thresholds. The Guidelines state that "If the Zone demonstrates a 25% or greater savings then this criterion shall be satisfied. If the Zone demonstrates a 15-24% savings, then conditions may be placed on the Zone in order to "pass" on this criterion. If the Zone demonstrates less than a 15% savings, this criterion shall not be satisfied." All lines in the Foothill Transit Zone exceed the 25% requirement established in the Zone Guidelines. Therefore, the cost savings criteria, as part of the overall program, have been satisfied. Each of the four components will be viewed independently to illustrate its level of goal achievement.

Cost Per Passenger

	<u>Estimated FY90 SCRTD</u>	<u>Actual Foothill Performance</u>	<u>Difference</u>	<u>% Difference</u>
Local Average	\$2.11	\$1.45	\$0.66	31%
Express Average	\$4.89	\$2.36	\$2.53	52%
Zone Average	\$2.71	\$1.79	\$0.92	34%

The Commission's 25% criterion is met for cost per passenger (above).

Commission Subsidy Per Passenger

	<u>Estimated FY90 SCRTD</u>	<u>Actual Foothill Performance</u>	<u>Difference</u>	<u>% Difference</u>
Local Average	\$1.41	\$1.00	\$0.41	29%
Express Average	\$2.99	\$1.03	\$1.96	66%
Zone Average	\$1.73	\$1.01	\$0.72	42%

Again, with this criterion the Zone exceeds the Commission Guidelines for a 25% cost difference in both the local and express comparisons.

Demonstrated Public Support:

Ridership has increased by 16%-19.9% since the Zone assumed operations of the lines listed below. Two ridership comparisons are made to assess the degree of public acceptance of the Zone. The first of these is the comparison between current counts made for the Zone and the last available count data from the SCRTD. The fault with this comparison is that, for the SCRTD, some of the data are quite old at this time. The following table exhibits the age of the SCRTD data in terms of the date of assignment of the given line to Foothill Transit.

<u>Line</u>	<u>Most Recent Count of SCRTD Riders</u>	<u>Date of Last SCRTD Count</u>	<u>Current FTZ Counts</u>	<u>Date of Last FTZ Count</u>	<u>% Increase</u>
178	1,330	4/14/89	1,376	04/12/90	3.3%
185	1,150	2/05/89	1,410	02/06/90	18.4%
274/6	1,002	7/27/89	1,166	07/26/90	14.1%
280	1,498	4/04/89	1,603	04/04/90	6.6%
495	919	6/17/88	1,272	06/14/90	27.8%
498	<u>1,064</u>	6/17/88	<u>1,474</u>	06/14/90	<u>27.8%</u>
Total	6,963		8,301		16.0%

The Likelihood of Continued Successful Operation:

Compliance with this criterion is essentially like a "check-off" process. Has the Zone completed a short range transit plan and transit performance measurement program, and has it followed the formula allocation procedures? Will it continue to do so?

The Zone has demonstrated that these requirements have been met. They have completed and filed the TPM forms and a short range transit plan. They have also completed the UMTA Section 15 reporting requirements even though they do not directly receive UMTA funding.

Conclusion:

All requirements established by the Los Angeles County Transportation Commission through its Zone Guidelines for the creation and operation of a transportation zone have been met to date by Foothill Transit as demonstrated through this first-year evaluation. The evaluation will continue through each of the next two years to determine whether Foothill Transit will continue to satisfy the criteria.

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